

# Summary of Market Based Sourcing

No state can tax all of a multistate company's income (Fed. Law). However, each state has flexibility to choose how it determines the percentage of income to tax.

## Existing NC Law for a Service Company

- % of income taxed = % of company's business activities conducted in NC
- "Business activity conducted in NC" is measured by the amount of employment and capital investment cost in NC
- So, the larger the percentage of the multi-state company's employment and capital investment in NC, the larger the percentage of the company's income subject to NC corporate tax.

## Market-Based Sourcing Calculation

- % of income taxed = % of income from NC market (consumption of products and services by NC consumers)
- Compared to the current methodology that is based on the percentage of employment and capital investment costs in North Carolina, market based sourcing is an incentive because it means an increased percentage of employment and capital investment in NC does not result in an increased percentage of the company's income being subject to NC tax.